

1 CHAIRPERSON JAMES: With that I'd like to proceed to
2 our first briefing, and I would call, I think, Doug Seay.
3 Commissioners, you know that Doug is on our staff. He has
4 presented before this Commission before. He is coming before you
5 today with a new job title, however. He is the Director of
6 Policy, and he briefed us on lotteries in Boston and river boat
7 casinos in Chicago. And today Doug has prepared a briefing on
8 pari-mutuel gambling.

9 Doug, welcome.

10 MR. SEAY: Thank you, Chairman James.

11 CHAIRPERSON JAMES: Thank you.

12 MR. SEAY: I should start by saying that I'm opposed
13 in principle to reading from prepared text, but I didn't have a
14 chance to write anything else last night because Dr. Moore kept
15 me out too late. So if there are any complaints, and I'm sure
16 there will be, please direct them to him.

17 Now, this briefing today is on pari-mutuel gambling.
18 Webster's defines it as "a betting pool in which those who bet on
19 competitors finishing in the first three places share the total
20 amount bet minus a percentage for the management." In other
21 words, the familiar win, place and show. In the U.S. this sector
22 of the gambling industry comprises horse racing, greyhound
23 racing, and jai-alai, the latter being a game of Latin American
24 origin sort of like handball. Of the three horse racing is by
25 far the largest segment of the industry, with nearly \$15 billion
26 wagered in 1996, as opposed to \$2.3 billion for greyhound racing,
27 and \$280 million for jai-alai. So quite a bit of difference
28 between these three components of the industry.

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1 As a mature industry, pari-mutuels have not
2 experienced the rapid growth in recent years as newer forms of
3 legalized gambling have. The total amount wagered on all forms
4 of pari-mutuel betting in 1996 was virtually unchanged from the
5 previous year. This was caused, this lack of performance in
6 increasing revenues has led a number of observers to characterize
7 the industry as a whole as a dying one. I'm not sure that's
8 accurate because that term masks large differences in fortune.
9 Greyhound racing has experienced a fairly steep decline in recent
10 years, dropping 11 percent in the amount wagered from the year
11 1995 to 1996. Jai-alai fell by 8 percent in the same period over
12 a single year. This was looked upon as good news. I don't know
13 how the drop of 8 percent is looked upon as good news, except for
14 the proceeding years were so terrible. And when I saw that as
15 good news I thought well, I finally figured out where the former
16 managers of the General Motors have ended up.

17 By contrast, the amount wagered on horse racing rose
18 by 2.3 percent in the same year. So you can see very distinct
19 differences in financial fortunes.

20 Not to go into too long a history, horse racing
21 obviously goes back thousands of years to the domestication of
22 the horse. I imagine racing horses was one of the first uses
23 they found after they domesticated it, and it's common to a range
24 of cultures around the globe. From its inception it's been
25 associated with aristocratic pursuits. In fact, a lot of
26 theories about structure are based upon, are centered around the
27 horse and the invention of the stirrup; if you can imagine that,
28 as having produced a profound political and cultural revolution.

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1 So it's had an intimate relationship in western civilization at
2 least for a long time. And as a result it has a very broad
3 social acceptance that other forms of legalized gambling don't
4 share necessarily. One that strikes me is that of all the states
5 where it is legal, there are 43 states I believe where horse
6 racing is legal, but I think tracks are only operating in 41, but
7 almost none of them have a legal minimum age for attendance.
8 It's thought to be perfectly appropriate for children to be at
9 racetracks, whereas to see them in casinos it raises eyebrows,
10 and for some people that's an important distinction. I think it
11 just indicates the different level of cultural acceptance. In
12 addition, horse racing has extensive connection to the agri-
13 industrial sectors in many, many states. That also contributes
14 to its broader public acceptance.

15 Given its very long pedigree, horse racing is heavy
16 with tradition, especially when compared with the newer forms of
17 legalized gambling, and until recently it changed little over
18 time. The core of the industry remains "live racing". That is
19 the race is actually taking place at racetracks such as Del Mar
20 across the street, with betting occurring on sites on those
21 races. But, as with lotteries, we see an introduction of new
22 technologies has brought about an evolution in this fairly old
23 industry, and it continues to push it into directions of change
24 that separate it from its past. But most important of these was
25 the initiation of televised, simultaneous broadcasting otherwise
26 knows as "simulcast", which allows people not at the track to
27 actually bet on the races either at other tracks -- that's known
28 as "inter-track" betting where you can be at one track and bet on

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1 a race at another and watch it on the television or at Off-Track
2 Betting sites where no live racing occurs at all.

3 The advent of satellite broadcasting and computers
4 made possible the creation of national pools of much larger sums
5 of money, thereby broadening the interest in the races and
6 increasing the rewards to the participants. That single change
7 initiated a rapid growth in the industry, and now simulcast
8 accounts for the majority of money wagered on horse racing. And
9 even though the tracks themselves seem to be in the aggregate
10 operating at a loss, the profits from simulcasting comfortably
11 exceed those. I'm not sure they're distributed on a per capita
12 basis, but the industry as a whole is still financially in the
13 black, even though certain segments of it are definitely not.

14 And, as I indicated before, though relatively small
15 in terms of other forms of gambling, the horse racing industry is
16 unusual in having a very extensive network of connections
17 throughout the economy, and these are located primarily in the
18 agri-industrial sector where it includes such things as horse
19 breeding, veterinarians, owners of stables, so on and so forth.
20 Some people estimate -- these are industry estimates -- that the
21 total employment is 119,000. I think that's probably on the high
22 side, but that's certainly within the ballpark of what is
23 possible, and they're generating, obviously, several billions of
24 dollars in economic growth per year.

25 Just to break out one state, California, which has by
26 far the largest industry in terms of employment, the calculation
27 is that there are almost 15,000 jobs that are directly related to
28 horse racing in some form or another, either be it at the

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1 racetrack, in the raising of horses, medical services, so on and
2 so forth.

3 It is a combination of a fairly extensive network
4 throughout the economy, as well as significant employment figures
5 that give the industry, in the words of one observer, the
6 significant political capital, making horse racing, despite its
7 size, very influential in the State Legislature.

8 Although it's not a gold mine for state governments,
9 horse racing does produce a significant amount of taxes. New
10 York takes in \$122 million, or at least did in 1996. In
11 California \$111 million. New York, even though it has a smaller
12 industry per se, has a lot more simulcasting and Off-track
13 Betting operations, and therefore it profits from those in other
14 states. Down to Vermont's \$32,000. I find that very
15 interesting. I'm not sure that even pays for a single horse
16 racing commissioner, anyway. And as a whole the industry
17 estimates that its total revenue at government at all levels,
18 it's almost half a billion dollars in 1996, so it's not
19 insignificant.

20 In this relatively quiescent industry, however, a
21 couple of issues have been raised in recent years dealing with
22 its financial health. I'll dwell on one of those. I'm sure
23 there are many others but I'm fortunate to have two panels of
24 experts to follow me to correct the impression that these are the
25 only issues here. Perhaps the most contentious issue facing
26 horse racing are proposals to introduce slot machines and other
27 casino-type games at the racetracks. Proponents have argued that
28 the expansion of legalized gambling has had a very negative

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1 impact on racetracks, and especially casino gambling. And in
2 order to be able to compete on a level playing field they need to
3 be able to introduce casino-style games at the racetracks. The
4 few studies that I've seen -- there may be others that I haven't
5 come across -- that looked at what happens to racetracks when you
6 introduce such things as lotteries and casinos, does seem to
7 indicate that there is in fact a negative relationship. The
8 correlation is pretty strong, cause and effect is difficult to
9 figure out, but casinos and lotteries don't seem to, at least in
10 the short term, have much of an impact on one another, but both
11 seem to have an impact, a negative impact, on the racetrack
12 industry. The assumption, I guess, is that people who used to go
13 to racetracks are simply attracted to the faster paced, more
14 varied types of games at the casinos.

15 In response, some racetrack owners and others argue
16 that the racetracks should be allowed to install slot machines in
17 order to remain competitive and financially viable. The argument
18 is that without this implicit subsidy both of the operations, as
19 well as taking a portion of the proceeds from the slot machines
20 and making bigger purses, and thereby attracting crowds to the
21 racing industry, but the racing industry won't survive. So in
22 this argument, by introducing casino-style gambling at racetracks
23 is actually an agent of allowing racetrack racing to continue, at
24 least as we've known it.

25 Critics, however, argue that the real motive in
26 introducing these proposals is not to save racetracks, but to
27 turn horse tracks into casinos. The profits from casinos are
28 considerably larger than those of most racetracks, and it's

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1 assumed that financial gain is one of the motivations of the
2 owners. I don't think that's an unlikely motivation. It goes to
3 a large extent about intent, however. Opponents say that owners
4 -- and I'm going to make this a very simple argument. I know
5 it's much more complex than this, but just to lay it out. That
6 owners really have no interest in promoting live -- continued
7 live racing. What they really want are casinos and to use the
8 racing as window dressing at the cost of doing business of
9 opening a casino. Owners, as I said before, and others in the
10 racing industry -- it's not just owners -- have said that if
11 horse racing is to survive in any reasonable form there needs to
12 be some supplement to its declining fortunes, and casino-style
13 gambling, since it's an obvious proven attraction to the public,
14 is one way of doing that.

15 One of the criticisms that is made by critics is that
16 the reports of the demise of horse racing are overdone, that in
17 fact they're still profitable. The real story is that the
18 profits from horse racing simply pale in consideration in
19 comparison to those of casinos. So what you have here is simply
20 a desire for higher profits, not for profits. It's very
21 difficult to make an assessment based on the limited amount of
22 information available, but those are the arguments basically as
23 they're laid out there.

24 According to one critic: "Racetracks that secure the
25 right to install (slots, video poker, et cetera) are potential
26 gold mines." So this is a controversy that is not simply for
27 proponents of the spread of legalized gambling versus horse
28 racing people. It divides the horse racing industry itself to

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1 some extent. Those who feel that perhaps there is a possibility
2 that the horse racing itself may be sidelined while the owners
3 concentrate on the casino aspects, but that is not a neat divided
4 industry as well.

5 It is clear, however, despite the allegations of some
6 of the opponents, that racetracks have been hard hit by
7 competition in other forms of gambling. One study in New Jersey
8 found that since the introduction of legalized gambling in 1978,
9 the industry has shed several thousand jobs, and in a period of
10 just five years, from 1991 through 1995, attendance at the
11 racetracks fell by one-third. So this is not an industry that is
12 in healthy shape, at least in that state. Recently a very old
13 racetrack near Atlantic City just closed.

14 Now, a number of states either are considering
15 legalizing casino-style gambling at racetracks, or have already
16 done so. It's interesting to watch for a student of political
17 acrobatics, as I think most of us are, it's interesting watching
18 some of these campaigns at the Statehouse. As I said before, the
19 horse racing industry has significant clout in the state
20 legislatures for a whole number of reasons. But some of the
21 alliances they form are fairly interesting. Louisiana's
22 Legislature this session, for example, there was an alliance
23 between the horse racing industry and the Anti-Boll Weevil
24 Coalition trying to share some of the revenues they thought would
25 emerge, and it came very close to approval but didn't go through,
26 and it's expected to be taken up next year. As I recall, Tip
27 O'Neil was part of the Anti-Boll Weevil Coalition.

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1 A similar proposal in Maryland for those of us in
2 Washington, D.C., is very much a part of the gubernatorial
3 campaign as Governor Glendening has taken an anti-slot machines
4 at racetracks position and has elevated this to a much higher
5 prominence in that state than in most other states, but it occurs
6 in other states as well. The evidence from those states that
7 have actually allowed this to occur is somewhat ambiguous. It is
8 clear that it has produced profits at the racetracks that do have
9 them. It's unclear if that's been healthy for the horse racing
10 industry or not. Increased employment is not necessary to the
11 horse racing industry, but remember again the argument is that
12 the introduction of casino-style games will allow the continuance
13 of horse racing as it is, not necessarily to its expansion.
14 However, in the Polk County, Iowa Racetrack, which -- that was
15 the Prairie Meadows Racetrack. I'm sorry. They just installed
16 slot machines a few years ago. Not only has the racetrack's
17 overall financial condition improved, as was expected, but it
18 seems to have actually led some of the casino patrons to wager on
19 horse races. So there is actually some evidence that it actually
20 has had a positive impact on horse racing.

21 Let me address very briefly greyhound racing and then
22 jai-alai. Greyhound racing operates at 49 sites in 15 states.
23 Florida is by far the largest proponent of that business. It has
24 been in a fairly steep decline since the late 1980's. If you
25 look at a demographic profile of the players, they tend to be
26 elderly gentlemen, and with not a whole lot of recruiting of
27 younger players, and therefore, time alone is going to reduce
28 that particular pool of clientele. As I said before, the gross

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1 amounts wagered in 1996 amount to \$2.3 billion with revenues of
2 \$500 million. So this is still a fairly significant industry
3 even if it is in decline. And the industry figures claim that
4 approximately 14,000 people, full and part time, are directly
5 employed in greyhound racing operations. Greyhound racing, the
6 structure of it and the problems that it faces are very similar
7 to horse racing except on a much smaller scale. That's
8 significant for a number of reasons, one of which is that it has
9 much less clout in the state's legislature, as you might imagine.
10 But it's also introduced things like simulcasting, simulcast
11 broadcasting, inter-track betting, Off-track Betting, what have
12 you, and also the same proposals for introducing casino-style
13 gambling at the racetracks. But again here the ability to push
14 this through the state legislatures has been lacking, and there
15 just isn't a whole lot of ground swelter. According to one of
16 the legislators in Kansas where this proposal is being pushed for
17 the Wichita facility, and I quote here simply because I think it
18 sums up a number of the reviews of legislators about this
19 industry which has a reputation that it is dying. It says:

20 "We, in the government, are not in the business of
21 picking winners and losers...The problem is that the pari-mutuel
22 business throughout the country is dying...I don't think it's an
23 industry that can be saved. I think it's a simple function of
24 the marketplace."

25 Whether that's true or not, that is simply a position
26 that many legislators have. Proponents, however, counter it is
27 government itself that has caused this problem by hamstringing
28 the racetracks by legalizing casinos on river boats, on Indian

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1 reservations, and elsewhere. They have in fact taken away the
2 ability of the racetracks to compete fairly, and it's government
3 restrictions that they would like to see removed, government
4 restrictions on gambling, casino-style gambling. They say
5 they're not looking for a handout, but in fact they're looking
6 for the government to simply get out of the way. So it's
7 interesting watching both sides' debate arguing for less
8 government interference in this particular industry.

9 A brief note on jai-alai. Jai-alai is concentrated
10 in just three states: Florida, Connecticut, and Rhode Island.
11 I'm not exactly sure why it's in Connecticut and Rhode Island,
12 but I believe it's connected to heavy Portuguese immigration. I
13 think that is the connection, but I'm not exactly sure. But
14 Florida is by far the dominant player here. It has two-thirds of
15 the industry and there is a very modest amount of simulcast
16 betting here. Jai-alai has been in virtual free-fall since the
17 late 1980's. Gross amounts wagered have dropped from \$700
18 million in the late 1980's to \$280 million. That's a two-thirds
19 drop in 1996. As bad as that is, these figures have not been
20 adjusted for inflation, so in cost in dollars it's more dramatic
21 than that. And just looking at the revenues from the government
22 -- oh, the amount wagered on the game fell by an average of 12
23 percent per year from 1990 to 1995. That's why 8 percent looks
24 so good. And the revenues -- this is another indication of how
25 quickly this industry is contracting -- dropped by three-quarters
26 in the eight years from 1988 to 1996. Again, the figure is
27 unadjusted for inflation.

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1 In conclusion, let me just say although the pari-
2 mutuel industry is often depicted as a "dying industry",
3 significant portions of it are in fact in relatively good
4 financial condition, primarily in the horse racing industry.
5 While it is true that a mature industry of this type may not
6 experience the rapid growth revenues as newer forms of legalized
7 gambling, many tracks are comfortably in the black.
8 Nevertheless, some sectors, principally the greyhound racing
9 industry and jai-alai, have been contracting for some time. And
10 there are a number of horse tracks that have either closed or
11 have experienced a succession of lean years. Increased
12 competition from other forms of gambling is generally pointed to
13 as the culprit, but other likely factors include such
14 imponderables as changes over time in consumer preferences and
15 cultural standards.

16 And I'll end my presentation there. I apologize
17 again for reading from the text, but hopefully I won't do that
18 again.

19 CHAIRPERSON JAMES: No apology is necessary, and
20 thank you. We have about five or ten minutes if any
21 Commissioners would like anything for clarification or any
22 additional background information from Doug before we go into our
23 panel.

24 Doug, again I want to thank you for that kind of
25 preparation. It puts all of what we do for the rest of the day
26 at their panels in the proper context, and the Commissioners and
27 I are indeed very grateful for that. Thank you.

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